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# State of Utah

## Department of Commerce

### Division of Securities

FRANCINE A. GIANI  
*Executive Director*

JASON P. PERRY  
*Deputy Director*

WAYNE KLEIN  
*Director of Securities*

#### NEWS RELEASE

**August 3, 2006**

### **Missouri Broker-Dealer Accused of Failing to Detect Agent's Scam Solicitations** ***Firm and its supervisors failed to detect sales of outside investments . . .***

**SALT LAKE CITY, Utah** – The Utah Division of Securities today issued a petition to revoke the securities licenses of Walnut Street Securities, of St. Louis, MO, and Richard W. Mack. The petition also asks that Mack and Carole Turner be barred from employment with any securities firm doing business in Utah. An Order to Show Cause also was issued against Roy N. Hafen, of Santa Clara, UT, seeking to bar him from securities employment in Utah.

Today's actions allege that while Hafen was a securities agent for Walnut Street Securities, he raised \$3,252,000 from 12 Utah investors in 2000 and 2001 for Video Venue and Red Mountain Investments, which claimed to be manufacturing a system for advertising at gas stations. According to the Division, Hafen and his business partner made false statements to investors and failed to disclose important information about the investments. Money raised was used to make payments to prior investors or diverted for personal and family uses.

Mack, based in Salt Lake City, was Hafen's supervisor and Turner was Hafen's regional compliance director at Walnut Street. As supervisors, they approved Hafen's disclosures regarding his outside business activities. The Division alleges they failed to scrutinize Hafen's actions in selling investments to the public. Walnut Street, Mack, and Turner failed to detect and act on warning signs about Hafen's activities including Hafen's failure to file required reports, disclosures that he was seeking a \$20 million loan from a Caribbean bank, and not conducting the required annual inspections of Hafen's office.

In early 2002, the Securities Division attempted to conduct an examination of the Walnut Street Securities branch where Hafen conducted business. Hafen refused to cooperate with the examination and would not disclose investors' names. Shortly thereafter, Hafen resigned from Walnut Street Securities and subsequently consented to the revocation of his license as a securities agent.

In addition to seeking to restrict their licenses, the Division is asking for a fine of \$300,000. The Order to Show Cause against Hafen alleges the sale of unregistered securities, fraud, and the use of deceptive practices. It seeks a cease and desist order and asks that Hafen be barred permanently from the securities industry.

A civil lawsuit was filed by the Division against Hafen, Walnut Street, Mack, Turner, and others in February 2005 to enjoin them from future violations of the law and seeking restitution for investors. That action is ongoing. To date, \$912,000 has been repaid to investors, but \$2,340,000 remains outstanding.